UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	
	)	Investigation No.:
SUPERALLOY DEGASSED CHROMIUM	)	731-TA-1090
FROM JAPAN	)	(Preliminary)
	)	

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Friday,
March 25, 2005

Room 101
Main Hearing Room
U.S. International Trade Commission
500 E Street, S.W.
Washington, D.C.

The preliminary conference commenced, pursuant to notice, at 9:30 a.m., before the United States International Trade Commission, ROBERT CARPENTER, Director of Investigations, presiding.

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On behalf of the International Trade Commission:

Staff:

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GEORGE DEYMAN, Supervisory Investigator
MICHAEL DIEHL, Attorney/Advisor
JIM FETZER, Economist
CHARLES YOST, Auditor
KAREN TAYLOR, Industry Analyst

ADDITIONAL APPEARANCES:

IN SUPPORT OF THE IMPOSITION OF ANTIDUMPING DUTIES:

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Washington, D.C.

NO ENTRY IN OPPOSITION TO THE IMPOSITION OF ANTIDUMPING DUTIES

I N D E X

P R O C E E D I N G S

(9:30 a.m.)

MR. CARPENTER: Good morning and welcome to the United States International Trade Commission's conference in connection with the preliminary phase of antidumping investigation No. 731-TA-1090 concerning imports of superalloy degassed chromium from Japan.

My name is Robert Carpenter. I am the commission's Director of Investigations and I will preside at this conference.

Among those present from the commission staff are, from my far right, Fred Ruggles, the investigator; George Deyman, the supervisory investigator; on my left, Michael Diehl, the attorney/advisor; Jim Fetzer, the economist; Charles Yost, the auditor; and Karen Taylor, the industry analyst.

I understand the parties are aware of the time allocations. I would remind speakers not to refer in your remarks to business proprietary information and to speak directly into the microphones.

We also ask that you state your name and affiliation for the record before beginning your presentation.

Are there any questions?

(No response.)

MR. CARPENTER: If not, welcome, Mr. Kramer. Please proceed with your opening statement.

MR. KRAMER: Good morning. I am Bill Kramer of DLA Piper Rudnick, counsel for Petitioners. With me today are Steve Houser and John Vorberger of Eramet Marietta, the sole domestic producer of superalloy degassed chromium; Ken Button and Jim Dougan of Economic Consulting Services; and my partner, Cliff Stevens.

This case presents a very clear picture of material injury to the domestic industry and threat of injury by reason of unfairly traded imports from Japan.

As the Eramet witnesses will testify today, a handful of customers consume the vast majority of superalloy degassed chromium sold in the United States. During the period of investigation, the Japanese producer, JFE Material, a new entrant into the U.S. market, offered competing product at very low, dumped prices, undercutting both Eramet and the only non-subject import supplier. By means of this price undercutting, JFE has taken major sales volume from Eramet at key customers and forced it to reduce its prices to those customers.

Further, the very low prices offered by JFE have suppressed the prices more broadly in the market during a period when Eramet's raw material and other input costs have been rising.

The result has been severe injury to Eramet's superalloy degassed chromium operations with declines in shipments, market share, production, capacity utilization, employment and financial performance.

The major sales lost to the Japanese imports are mirrored in the import and market share data. The subject imports first entered the market in small volumes in 2001, when demand for superalloy degassed chromium was relatively high due to the strength of the aerospace and power generation end use markets. In both 2002 and 2003, the Japanese imports increased substantially in terms of absolute volume and market share. These increases occurred despite a sharp fall-off in demand in 2002 and continued weak demand in 2003 caused by the impact of the September 11 attacks and the collapse of artificially high power prices.

In 2004, the volume of Japanese imports surged to its highest level, capturing a still larger share of the U.S. market. At the same time, even though demand in the aerospace and power generation markets had begun to improve, the domestic industry shipments and market share further declined as a result of the sales volume lost to the dumped imports.

The critical damage done by the lost sales cannot be overemphasized. Because of the small number of customers and the fact that the vast majority of business in this industry is done in large blocks, using annual or longer term contracts, the domestic industry cannot replace major lost sales volume. As a result, Eramet has been forced to cut back production, which has increased its per unit cost and losses on each pound sold.

The broader negative price impact of the Japanese imports and instances of lost revenues at important customers have exacerbated this injury.

The threat of further injury is also very strong in this case. The Japanese producer has demonstrated the ability to penetrate step by step the major customers consuming the vast majority of this product. It has demonstrated that it can meet the demanding requirements of these customers, known as investment casters, that make the high end superalloys that superalloy degassed chromium is principally used in producing. Further, according to its own website and based on its statements to the press, the Japanese producer has increased its production and has unused equipment that could be used to increase production further.

As the Eramet witnesses will testify, the domestic industry has already been severely injured and its continued viability is very much threatened. Any additional significant lost sales would be devastating. Without relief from the dumped imports, the domestic industry will not be able to recapture or even maintain its production and shipment volume and it will not be able to raise its prices to a level where it can recover its increased input costs and return to financial health.

Our first industry witness is Steve Houser.

MR. HOUSER: Good morning. My name is Steve Houser. I am the Deputy Director of Sales and Marketing for Special Products at Eramet Marietta. I have worked in the domestic superalloy degassed chromium for more than 17 years, both for Eramet and its predecessor, Elkem Metals Company. I am here to testify about this product, its importance to Eramet and customers and how low priced dumped imports from Japan are causing severe harm to Eramet's operations producing superalloy degassed chromium.

Superalloy degassed chromium is a high purity form of chrome metal containing at least 99.5 percent but less than 99.95 percent chromium. It also contains very low levels of certain gaseous elements and other impurities. Superalloy degassed chromium is principally used as an alloy addition in the production of high end superalloys. These superalloys are used to make the most critical components of jet aircraft engines and power generation gas turbines. These are parts that experience the highest temperatures and greatest physical stresses.

The presence of chromium in superalloys allows these engine components to operate at very high temperatures without oxidizing, or burning up, resulting in engine failure. At the same time, in addition to chromium, the superalloy producer must avoid adding elemental impurities, particularly nitrogen, sulphur and oxygen. These impurities can introduce particles into the superalloy that over time can cause catastrophic structural failure in the engine part.

Superalloy degassed chromium is produced by manufacturing chromium metal and then further refining or degassing at a vacuum furnace to reduce the level of critical impurities. Chrome metal can be manufactured using an electrolytic, aluminothermic or silicothermic process.

Eramet produces chrome metal using an electrolytic process, while the Japanese producer JFE uses a silicothermic process.

Eramet and JFE use the same type of degassing process to achieve the required low levels of gaseous elements and other impurities.

There are no industry-wide standard specifications for superalloy degassed chromium. Producers typically sell a regular grade in addition to grades containing lower nitrogen or lower sulphur than the regular grade. However, one producer's regular grade does not necessarily have the exact same chemical composition as other producers' regular grade.

Customer specifications also are not exactly the same. Customers often have unique requirements with respect to the maximum levels of certain impurities. As we showed Karen Taylor and James Fetzer during their plant tour last week, superalloy degassed chromium is refined in a batch process. From batch to batch and within a given batch, there are small differences in the levels of key impurities. We sample and sort our output and by these means match up what we produce with particular customers' requirements.

To some extent, we can also adjust the production process to produce material meeting particular customer specifications.

Notwithstanding the lack of standard specifications for superalloy degassed chromium, there are recognized levels of particular impurities that define the product. As explained in the petition, superalloy degassed chromium contains no more than 50 parts per million, or ppm, nitrogen and no more than 50 ppm sulphur. Fifty parts per million is only five-thousandths of one percent by weight. Superalloy degassed chromium also contains no more than 500 parts per million oxygen. Other impurities such as aluminum and silicon do not exceed the levels identified in the petition.

Eramet is the only U.S. producer of superalloy degassed chromium, and this product is very important to the plant and our superalloy customers. We are only one of three suppliers of this product to the superalloy producers in the United States. We are an efficient producer of high quality superalloy degassed chromium. We continually strive to improve the production process and quality of the product.

In September 2001, Eramet management approved an investment plan to purchase and install a new pilot degassing furnace. The furnace is designed to use a new technology patented by Eramet involving hydrogen and vacuum refining of chrome metal. This patented technology was the result of several years of technical work that began in 1994 using both internal and external technical resources. Fully implementing this new process would allow us to reduce costs and produce the highest quality superalloy degassed chromium in the world.

I would now like to turn to the impact of the unfairly traded imports from Japan on Eramet. As John Vorberger will explain in his testimony, JFE has aggressively undersold Eramet in its contract negotiations with major customers, taken major sales volumes from us and forced us to reduce prices in an effort to stem lost sales at these customers.

Because the number of customers consuming the vast majority of this product is very small, we cannot replace large sales volumes lost to dumped imports on the basis of price. In addition, because of the small number of buyers and sellers, price information is readily communicated among buyers. As a result, the Japanese producer's very low selling prices have held down market prices more broadly.

The resulting impact on Eramet's superalloy degassed chromium operations has been severe. We have experienced significant declines in production, capacity utilization, shipments and market share. With the decline in production, the number of workers involved in producing superalloy degassed chromium at the Marietta plant has fallen dramatically. The hours worked and wages paid to those workers also have fallen substantially.

Even though demand for superalloy degassed chromium began to improve noticeably in 2004, our sales volume and market share for this product fell that year, while the imports from Japan reached their highest volume and market share.

A combination of lost volume and negative price effects of the dumped imports has had a major adverse effect on our profitability of the superalloy degassed chromium operations. Because of the lost sales, we have lost substantial revenues and also have had to reduce production, which has forced us to spread fixed costs over a smaller product volume. As a result of the production cutbacks, the company is experiencing an increase in per unit costs.

During the last several years, our production costs also have been increasing due to rising costs of raw materials and other inputs. For example, between 2001 and 2005, the cost of high carbon ferrochrome and ammonia have increased greatly. During the same period, the cost of steam and sulfuric acid also have increased significantly. At the same time the dumped imports from Japan have held down prices and prevented price increases that would otherwise have occurred.

The combination of the presence of JFE's low prices in the market and increase in our per unit cost has put us in the position of having to sell at prices below our cost of production.

Finally, as a result of JFE's dumped imports, Eramet is unable to make necessary research and development expenditures and capital investments. Most importantly, we have halted implementation of the investment plan I described earlier. As I explained, we have installed one small pilot furnace using the new patented degassing technology. We have also constructed a new building to house this furnace and related equipment. Eramet had intended to continue to develop this technology and eventually replace the existing degassing furnaces at the

Marietta plant.

As Karen Taylor and James Fetzer saw on their plant tour, there were empty areas in the new building where we plan to install additional furnaces and associated equipment. Continuing poor financial performance due to the dumped imports from Japan has prevented us from implementing these investment plans which has imperiled our future and continued competitiveness in this market.

In summary, we have been severely injured by the dumped imports from Japan. These imports are being sold at very low dumped prices to key customers resulting in major lost sales, significant lost revenues and suppressed market prices at a time when our other input costs are rising. We are quite sure, absent relief from unfairly traded imports, that these imports will continue to penetrate the market, resulting in further declines in our production, sales, market share and employment and, even worse, financial performance.

Ultimately, Eramet could be forced to shut down its superalloy degassed chromium operations completely.

Thank you.

MR. KRAMER: Our next witness is John

Vorberger.

MR. VORBERGER: Good morning. My name is John Vorberger and I am Sales Manager for Special Products at Eramet North America. For the past seven years, I have been involved in the marketing and sale of superalloy degassed chromium produced by Eramet Marietta and its predecessor Elkem Metals Company. Through my regular contacts with customers and my years of experience, I have become very knowledgeable about the U.S. superalloy degassed chromium market and the impact of dumped imports from Japan on the market and the U.S. industry.

I am here to explain to the Commission how the unfairly traded imports from Japan have gone about entering the U.S. market and capturing critical customers.

First, I would like to describe the unusual nature of the market for this product in the United States. As Steve Houser has explained, superalloy degassed chromium is a high purity form of chrome metal containing very low levels of certain critical impurities. The market for this product is composed of a very small number of producers and consumers.

To our knowledge, there are only four producers of superalloy degassed chromium globally, three of which sell product in the United States. Eramet is one of these three producers and the only domestic producer. The second is French producer Delachaux, a long-standing participant in the U.S. market. The third is Japanese producer JFE Material, a relative newcomer to the market.

The universe of U.S. customers of superalloy degassed chromium is also very small, fewer than 20 in total. These consumers are almost exclusively superalloy producers. Among them, three large producers account for about 70 percent of the consumption of this product in the United States. These three consumers, who are investment casters, are the main producers of the high end superalloys used to make the most critical components in jet aircraft engines and gas turbines for power generation. Most of the superalloy degassed chromium consumed in the United States is used to produce these high end superalloys.

Superalloy degassed chromium producers must qualify with their customers. Eramet, JFE and Delachaux are all currently qualified to sell to investment casters.

Normally, superalloy degassed chromium is sold pursuant to annual contracts. Only a small volume is sold on a spot basis. Thus, virtually all of the business is decided during these annual contract negotiations. What this means is that changes in market share tend to happen in large blocks rather than over a period of time. As a result, a supplier could go from having 50 percent of a customer's business to virtually none overnight.

In addition, it is common practice for suppliers to sell the product on a consignment basis. The way the consignment process works is that a suppler maintains an inventory at the purchaser's production facilities. The customer then periodically reports consumption, typically monthly. The supplier then invoices the customer for that quantity at the contract price.

Before turning to how Eramet has lost critical sales to JFE, I would like to take a minute to discuss what superalloy degassed chromium is not.

First, it is very different from electronics grade chromium. Electronics grade chromium contains a higher percentage of chromium and lower levels of impurities than superalloy degassed chromium. Most importantly, it contains an extremely low level of iron. Electronics grade chromium is used in high end electronics applications such as the production of LCD displays where such a low iron level is required. Simply put, superalloy degassed chromium cannot be substituted for electronics grade chromium because its iron content is too high.

Moreover, electronics grade chromium costs more than four times as much as superalloy degassed chromium. For this reason, while it meets the technical requirements for superalloy applications, it is not commercially feasible to sell electronics grade chromium for use in these applications.

Second, superalloy degassed chromium is also distinct from vacuum melt grade chromium, also known as VMG. VMG chromium contains a lower percentage of chromium and higher impurity levels. Specifically, it contains a higher level of oxygen and also typically higher levels of nitrogen, sulphur, aluminum and/or silicon. For example, according to JFE's website, its VMG chromium contains a maximum percentage of both oxygen and silicon that is twice the level of those impurities in superalloy degassed chromium.

VMG is used to make lower end superalloys that are used in the production of engine components that are subjected to lower physical stresses and temperatures. It is also used in less critical applications such as corrosion resistent alloys.

These parts are generally wrought rather than cast.

For these applications, higher levels of key impurities may be acceptable. However, because of these higher levels of key impurities, VMG chromium cannot be substituted for superalloy degassed chromium in the production of the high end superalloys used in producing certain engine parts that must withstand high temperatures and physical stresses. The superalloys in these critical applications are made to use solely or predominantly superalloy degassed chromium.

While superalloy degassed chromium could technically be substituted for VMG chromium, VMG chromium is priced much lower than superalloy degassed chromium. Given the fact that superalloy producers are under enormous cost pressures, they do not substitute higher priced superalloy degassed chromium for VMG chromium in applications where lower priced VMG chromium is sufficient.

In sum, electronics grade chromium is not sold down to superalloy degassed chromium users and superalloy degassed chromium is not sold down as a substitute for vacuum melt grade. At the same time, because of specific requirements with respect to impurity levels, VMG chromium cannot be substituted for superalloy degassed chromium in the high end superalloy applications and likewise superalloy degassed chromium cannot be substituted for electronics grade chromium in high end electronics applications.

Now I would like to describe for the Commission how JFE, as a new entrant into the superalloy degassed chromium market in the U.S. has penetrated the market by going after Eramet's key customers.

In order to remain in business, both Eramet and JFE are under pressure to find ways to maintain or expand the volume of their sales. The customers that purchase superalloy degassed chromium perceive the imported and domestic product to be the same type of high purity chrome metal. Superalloy degassed chromium from any supplier that meets the customer's specification can be used interchangeably. As a result, the determining factor deciding whose product to buy comes down to price.

I understand that in many cases the Commission sees, the foreign producers entering the U.S. market have first targeted lower end applications with less stringent specifications in order to gain a foothold. After first capturing sales of commodity type products, they have moved up the chain to higher value added forms of the subject merchandise. This case, however, is very different. Here, JFE has come into the market with a high end product and is targeting the most important customers at the top end of the market.

The story of JFE's penetration of the U.S. market begins in 2000, when the company converted facilities that were idled at its Toyama plant in Japan to manufacture superalloy degassed chromium. Prior to that time, JFE did not have any superalloy degassed chromium production or capacity.

Nonetheless, at the very outset, JFE announced that its goal was eventually to produce 3000 metric tons per year. According to its website, JFE has already reached production of 1000 metric tons per year. This level is very high, given the total global consumption of this product is about 1500 metric tons per year, most of which is in the United States.

That means JFE is already producing two-thirds of global consumption and we have reason to believe that JFE has idle production assets that could be converted to increase its production levels.

The second part of the story is how JFE has aggressively pursued core Eramet customers and taken sales from Eramet through extremely low prices. As I mentioned, JFE made its first shipment of superalloy degassed chromium to the United States in 2001. As Steve Houser has explained, that is the year in which two major developments occurred in the market that drive demand for this product: the 9/11 attacks and resulting declines in air traffic and financial difficulties for commercial airlines depressed demand in the aerospace market, and the collapse of artificially high electricity prices caused a fall-off in power plant construction.

The overall decline in demand had a negative impact on the superalloy degassed chromium industry in the years 2002 and 2003 and put it into a very vulnerable position. During this period, when the domestic industry was vulnerable, JFE set out to build up its position in the U.S. market. Between 2001 and 2003, the volume of imports of superalloy degassed chromium from Japan rose nearly 12 fold. To put this in perspective, in 2001, imports from Japan accounted for 1 percent of total imports. But by 2003, they represented more than 22 percent of total imports, a share that further increased in 2004. Thus, during this period when the domestic industry was most vulnerable and consumption had contracted, JFE increased its volume of exports to the United States exponentially. And now, as demand in the market is showing signs of recovery, JFE is further increasing its shipment volume and market share and thereby depriving the domestic industry of the benefit of this recovery.

How has JFE penetrated the U.S. market in this difficult period?

JFE's method of entering the market has followed a common pattern. First, JFE has approached the customer with extremely low prices and won a portion of the business on a trial basis, giving the customer time to evaluate the product quality and supplier performance. In that first year, Eramet experiences lost revenues as it revises its bids to reflect the new low priced competition.

By the time the following year's business comes up for bid, JFE has convinced the customer that it can meet their requirements. The result is the customer can then choose a supplier based solely on price. Since Eramet is unable to meet JFE's dumped prices, virtually all of this contested business goes to JFE.

As an illustration, in 2003, JFE targeted one of Eramet's most important customers. To preserve confidentiality, we will refer to this company as Company X during this public conference. Eramet and Company X have had a long commercial history, extending to before the Commission's period of investigation. Eramet has been the primary supplier of superalloy degassed chromium to this company.

As I will describe more fully, despite this long-standing relationship, as a sole result of JFE's dumped prices, Eramet has lost to JFE the great majority of Company X's business from 2004 through 2006.

In 2003, Eramet learned from Company X that JFE had appeared as a new bidder, offering to sell its product at a much lower price and on a consignment basis with very liberal terms. In response to this new competitor, Eramet lowered its price. It is my understanding that JFE received a small portion of Company X's business for its 2003 contract requirements.

JFE then captured a larger portion of Company X's requirements for a period of three years, 2004 through 2006, by submitting a low bid at prices that decline each year. After JFE made the sale, Company X subsequently awarded the great majority of its entire projected requirements for those three years at the same low dumped prices. The customer did so without even informing Eramet, despite Eramet's continued expressions of interest in supplying those volumes, its long-standing relationship with the customer and its consistent history of meeting the customer's quality and delivery requirements.

We were told by the customer that it did not give any notice to Eramet because it was sure that Eramet could not and would not meet the low price being offered by JFE.

At another important customer, the first step of the same process has occurred. Absent relief from the unfairly traded imports, Eramet will have no way of stopping the same kind of progression toward the loss of a great majority of that customer's business, based solely on the aggressive price undercutting by JFE.

By attacking from the top down and capturing key customers that are vital to Eramet's continued viability as the sole U.S. producer of superalloy degassed chromium, JFE has already inflicted serious injury upon the domestic industry. If this practice of penetrating the U.S. market by price undercutting at key customers is allowed to continue, the harm that is being suffered will be compounded and the future of the U.S. industry will be in severe jeopardy.

Thank you.

MR. CARPENTER: Our next witness is Ken Button.

MR. BUTTON: Good morning. I am Kenneth Button, Senior Vice President of Economic Consulting Services, LLC, testifying on behalf of the Petitioners. I am accompanied by James Dougan, ECS Senior Economist.

In my testimony, I will summarize for the Commission how the economic evidence in this investigation meets the statutory criteria to demonstrate material injury by reason of the subject imports, as well as threat.

This analysis is based on the evidence as presented in the petition and in Eramet's questionnaire and is summarized in the indicia listing in Petitioners' Exhibit 1 which has been distributed to the staff.

As to injury, clearly, Eramet, which constitutes the domestic industry, is suffering current material injury, as you have just heard from two industry witnesses. The confidential questionnaire data similarly show an injured and deteriorating condition according to essentially all indicia. There are large declines in production, volume, capacity utilization, employment, and U.S. shipments. There has been severe deterioration in financial performance. Facing a painful cost-price squeeze, Eramet's cost of goods sold increased substantially in the face of rising raw material and energy costs while Eramet was unable to make compensatory increases in its prices to cover these higher costs.

It also suffered rising unit costs as fixed costs were spread over a declining production volume. As a result, Eramet has gone from earning operating and net profits to suffering large operating and net losses.

The collapse of Eramet's cash flow resulted in declines in capital expenditures, in research and development and in Eramet's new furnace investment program. This clear injury was caused by the increasing volumes of dumped subject imports from Japan. The volume of subject imports from Japan is significant in absolute terms and in relative terms measured with respect to U.S. market share, the share of total imports and in relation to U.S. production.

Similarly, the growth in the volume of the subject imports has been significant in both absolute and relative terms as well.

The rising volume of imports has entered the U.S. market at very low prices that have undersold domestic industry prices. The result has been that Eramet has lost large sales volumes to the subject imports and has suffered major price suppression as it has been prevented from raising prices to cover its escalating costs.

Eramet has submitted very detailed lost sales and lost revenue allegations that document the manner in which the subject imports have seized a large portion of the U.S. market and have prevented Eramet from realizing needed price increases.

These lost sales volumes and revenues directly translated into reduced U.S. industry production, capacity utilization, employment and shipments. They also caused the severe deterioration in financial performance that resulted in Eramet's large operating and net losses.

Eramet also faces the threat of further injury if the dumped imports continue. The Japanese producer, JFE, has greatly increased production volumes and production capacity in Japan. The import data show that subject imports and their market share are increasing rapidly. The current pattern indicates that the low prices of the subject imports will likely continue to undersell the U.S. industry and to suppress U.S. market prices in the future.

Continuation of such imports will have serious negative effects on Eramet's development and production efforts regarding its advanced degassing furnace technology. Furthermore, the fact that most JFE sales are made on a consignment basis suggests that there is a significant import inventory overhang in the U.S. market that continues to weigh on U.S. market prices.

Perhaps most importantly, Eramet believes that JFE used its dumped pricing to secure a multi-year contract which means that Eramet will unavoidably suffer additional lost sales injury in the future.

In conclusion, it is clear that based on the economic evidence, the statutory indicia of injury, causation and threat are fully satisfied.

Thank you.

MR. KRAMER: That completes our presentation.

MR. CARPENTER: Thank you, gentlemen, for your presentation.

We'll begin the staff questions with Michael

Diehl from the Office of the General Counsel.

MR. DIEHL: Good morning. I'm Michael Diehl from the Office of the General Counsel. Thank you for your presentations.

I was taking notes and I have a lot of questions. There was some discussion in the petition about the fact that since 9/11 there's been substitution of VMG for use in products that formerly were made using superalloy degassed chromium.

Could maybe Mr. Houser or Mr. Vorberger explain more about what was happening in that regard?

MR. VORBERGER: Thank you. It's accurate, there had been some of that during the previous downturn. That was more a function of consumers replacing the VG with VMG in applications where all along VMG truly was applicable.

MR. DIEHL: And so when you say VG, that's superalloy?

MR. VORBERGER: I'm sorry. Yes. Superalloy degassed. The replacement of superalloy degassed chromium metal in those applications by VMG was driven more so by the severe cost pressures and all the while the requirements for chromium metal in those applications all the while really only were -- the requirements really were only for VMG grade. It was in essence using a Cadillac for a Chevy application.

MR. DIEHL: That sounds like before 9/11 and the decreased demand and increased pressure on the superalloy producers they were using superalloy degassed chromium rather than the VMG. Is that right?

Go ahead Mr. Kramer.

MR. KRAMER: I think what John is saying is that in some instances before these customers were under that enormous cost pressure they were purchasing product that was higher quality than required for particular applications. Once they were faced with the cost pressures, they purchased the least cost material that met the standard for a particular application.

MR. DIEHL: So when did they start making this change, roughly?

MR. VORBERGER: After the downturn, which accelerated in 2001.

MR. DIEHL: Okay. So recently.

MR. VORBERGER: Right.

MR. DIEHL: It's during the period that we're examining.

MR. VORBERGER: Post 9/11.

MR. DIEHL: Okay. So, Mr. Kramer, when you go to the post-conference brief, could you address that as it relates to like product? Because it could lead to the inference that the VMG and the superalloy could be used for the same applications, at least the universe of applications that were before us during the period of investigation. That would be an issue for you to develop further in the brief.

MR. KRAMER: We will address that.

MR. DIEHL: Okay. Thank you. I had a question about Exhibit 2 to the petition. In the right-hand column, it states vacuum grade for vacuum melting and it describes the Elchrome VG product, it talks about its purity levels. Are we talking superalloy here or VMG product here?

On this Exhibit 2, in the right-hand column, it says vacuum grade for vacuum melting and then it talks about the Elchrome VG and it talks about its purity levels and that it can be used in gas turbine engines and jet aircraft engines. What I didn't understand is whether this is a discussion of a superalloy product or a VMG product.

MR. HOUSER: Let me explain something that is very confusing. The term vacuum is used interchangeably but, depending on the context it's taken in, it can be interpreted two ways, I guess is a good way to say that. For example, one method of producing degassed chromium metal is in a vacuum furnace. For example, Marietta has vacuum furnaces and we use that for the vacuum refining of chrome metal into degassed chrome superalloy, degassed chromium. Also on the other end of the spectrum is the customer, the cobalt or nickel melter producing these superalloys. He has vacuum melting and that refers to his vacuum melting furnace. And so one of the things in the industry is to -- there's two types of melting, air melting and vacuum melting. But on the customer side, they tend to refer to the products as vacuum melt grade, which means it's used in their vacuum melting operations, and we refer to it as a vacuum degassed product because we use a vacuum furnace. So there's really two meanings depending on the context of the use of the term vacuum.

I don't know if that clears it up or not.

MR. DIEHL: No, that's helpful. So it's a description of the Elchrome VG product and then -- well, I guess what I'm asking, would you put that into the basket called superalloy or the basket called VMG?

MR. HOUSER: In this case, we refer to it as L chrome VG, which is our trade name for vacuum degassed chromium, superalloy degassed chromium. But that refers to -- this grade has a very low gas content and other trace elements that is typically used, as John described, in the high end vacuum melted nickel and cobalt alloys.

MR. DIEHL: Okay.

MR. VORBERGER: I think to expand just a little bit and to directly answer your question, the part of the literature that you're referring to does refer -- the reference is to superalloy degassed chromium which by trade name we call Elchrome VG.

MR. DIEHL: Okay.

MR. VORBERGER: And it's referenced, that's the reference to applications such as gas turbine engines for jet aircraft and power generators.

MR. DIEHL: Okay. So staying with the same exhibit, about halfway down, it has grade and then it says VMG and then it says VG pellets of different sorts and SVG pellets. Should I understand that VMG is vacuum melt grade and that all the rest of these are superalloy products? Is that correct?

MR. VORBERGER: Correct. Yes.

MR. DIEHL: Okay. Okay. Thank you.

Mr. Houser, I think you were talking about when you make a batch of product you then test it to see what its specifications are and then match it to the customer requirements?

MR. HOUSER: Correct.

MR. DIEHL: Is it the case that sometimes when you do the testing you find that it's really a VMG product because a certain impurity level is higher than what would be required for a superalloy product?

MR. HOUSER: That's possible, but if there's some -- I guess in the onset, when we produce the superalloy degassed chromium, we are always trying to make the highest grade, but because of the technical limitations of the process, we don't always make that grade, but there is a possibility that in the production process -- we have a furnace failure, a gas leak or the blend wasn't exactly correct, the recipe was off, it will actually be off grade or out of the specification for superalloy degassed chromium which we downgrade that and sell it as VMG, quite honestly.

MR. DIEHL: Okay.

MR. HOUSER: The other possibility, too, depending on what element is out of specification, we can also recycle it or rework it, revert it back into the furnace a second time.

MR. DIEHL: Okay. It might be something that you don't want to discuss in public, but maybe in your post-conference brief, could you give us a feeling of what percentage of the batches are sort off spec superalloy and therefore have to be sold as VMG so we could get an understanding of just how rare or how common that is, if you could just specify that?

MR. HOUSER: Okay.

MR. DIEHL: Another thing that you may want do not here in public but in your brief is I'd be interested in knowing the share -- when you look at the total cost of production for the product, what share is due to what happens before degassing and what share is due to the degassing process, so we could get a sense of how important the degassing process is versus everything that happens before that, so if you could give us that, perhaps in your post-conference brief.

Staying with Mr. Houser, I think you mentioned that your company experienced a loss in market share, but I was looking at the petition and at page 41 it states that the market share held by Eramet was basically flat. Can you just help me understand if there's a difference between what you're saying or perhaps the market share declined only a small amount?

MR. KRAMER: The data for 2004 are not reflected in the petition and it's in that year in which the principal market share loss occurred.

MR. DIEHL: Okay. Thank you.

Mr. Vorberger, you mentioned that JFE is a relative newcomer. Can you just elaborate on that a bit, when you first saw JFE coming into the market?

MR. VORBERGER: Yes. I believe -- well, the year 2001 I believe is the year we began to see evidence of JFE in the marketplace.

MR. DIEHL: Okay. Prior to that time, or at that time, and again I don't know if you want to comment on this in public, but can you tell us about prices of Eramet versus those of Delachaux? You've characterized the JFE prices as being lower than Eramet prices, but what I don't know is about Delachaux.

MR. VORBERGER: By and large, on the similar level.

MR. DIEHL: Delachaux and Eramet?

MR. VORBERGER: Delachaux's and Eramet's pricing were very similar.

MR. DIEHL: Okay. Thank you.

What drove the costs higher for the high carbon ferrochrome?

MR. HOUSER: High carbon ferrochrome is essentially the raw material that we use to produce the chromium metal in our electrolytic process at Marietta, but there are millions of tons of high carbon ferrochrome produced globally. That's primarily consumed by the stainless steel industry. It is the alloy addition of choice to add to steel to make stainless steel. So it basically follows a pattern of supply and demand, like most phosphor alloys. And it tends, if you look at -- we study this very closely, but over a period of ten years, you tend to see spikes in ferrochrome pricing and then you'll see very low levels, but it's very erratic and it goes up and down, but I think most people in environment blame almost everything on the Chinese economy, so probably during that period of time there was a great demand for high carbon ferrochrome in China which typically happens, the price will spike up. And, of course, those spikes sometimes last -- they can be very short lived, maybe six months, and sometimes maybe last two years, but that's very important to us because it's, I think, roughly 20 percent of the cost of producing our product.

MR. DIEHL: Okay. And I think the petition mentioned that as an increased cost of production factor, but I think you mentioned there were others as well. Could you elaborate on those a little bit?

MR. HOUSER: Yes. I think over the period of investigation, we have seen really increases in, I think, almost all of our basic raw materials in the chrome metal process. Obviously, high carbon ferrochrome is the most important, but also we use sulfuric acid to dissolve the chrome, ammonia to adjust the pH for electrolytic cells and we've also seen rises in energy, power costs, labor costs. Marietta is unionized and we typically go through a labor contract negotiation and we see labor increases like everyone else. I think over the period of investigation when we looked at it we saw rises in almost everything of just an order of magnitude higher for some than others.

MR. DIEHL: Okay. Thank you. Am I correct that the difference in the manufacturing process between VMG and superalloy is only in the degassing phase? Is that correct? Are they the same before you hit the degassing phase?

MR. HOUSER: I think -- just to give you a basic understanding as Karen and Jim saw at the plant, Marietta is a chrome metal plant which produces approximately 3000 tons of what I call basic chrome metal. Then from that 3000 tons of chrome we produce various value added products. We produce a chrome alloy for the aluminum industry, we do some chrome powders, we do some chrome carbide for the thermal spray applications. In other words, we take that basic chrome metal and then further add or refine or work it to be what we call value added products and, of course, superalloy degassed chromium is the largest of the value added products from the basic chrome metal. And, of course, you can also sell the chrome metal itself as is, as the electrolytic plate.

MR. DIEHL: So if I'm looking at a batch of metal that's going to end up as superalloy, it might be the same as what's going to end up as VMG through a certain point in the process and then later differentiated by the value added processes?

MR. HOUSER: Yes. I think in some -- I mean, we obviously select the most suitable electrolytic chrome for the degassing process. It's pretty much a selection process to choose the best quality chrome to take on to the higher value added products, so there's a bit of a selection process there, but they're essentially the same in the process to the production of the superalloy degassed chromium and the VMG product. We do make certain changes in the batches, the mixing process, and also adjust the furnace cycle because it is two distinct products.

MR. DIEHL: Okay. If that could be further explained in the post-conference briefs, that would be helpful.

MR. KRAMER: Could you just tell us exactly what you want further explained?

MR. DIEHL: I might have missed something that you had in the petition, but my understanding was from the petition that this is essentially the same product until you hit the degassing phase and at that point there are different additives and there's different lengths of time that the product undergoes degassing. If there are differences prior to that point, I don't understand them yet, and if you could just clarify them in the brief or if Mr. Vorberger wants to comment --

MR. VORBERGER: By and large, that's accurate.

MR. DIEHL: Okay. But if there's any differences in that, I though you said maybe the ingredients you put into the batch or -- just if you could just elaborate so we fully understand how this works.

MR. KRAMER: Just to be clear, are you asking about differences before degassing or both before and after?

MR. DIEHL: Well, now that you mention it, during degassing. I mean, you've given some explanation, but if you'd like to elaborate, that would be fine, too.

MR. KRAMER: Okay.

MR. DIEHL: I just want to get a picture of how these two products are made.

Now, there's talk about the decline in demand since 2001. Could you kind of slice it up for us? I guess there's lower demand for aircraft engine parts, there's lower demand for gas turbines, and then there's also some substitution of products. Can you slice that up for us so we can understand what's happening from a demand point of view?

MR. KRAMER: I just want to clarify one point, which is there was a fall-off in demand. We're now in a period in which there's a recovery occurring, so your question goes to the fall-off that occurred the beginning and the end of 2001?

MR. DIEHL: Well, thank you for clarifying. Let's talk about the fall-off and then maybe the increases, what's accounting for that.

MR. VORBERGER: Post 9/11, we did see a fall-off in both the aerospace market and the power generation markets which was the primary cause for the fall in demand for superalloy degassed chromium. We have since, as these are cyclical markets, we've begun to see an upturn in the aerospace market and there's evidence of upturn in the power generation market as well, resulting in increased demand for superalloy degassed chromium metal from those markets.

MR. DIEHL: Okay. So there's that part of decline. There's also a substitution that's going on. And I don't understand the relative magnitude of what is driving the lower demand.

MR. KRAMER: I'd like to clarify one point, which is our testimony is that the substitution occurred in the past and that once we got to the point at which the superalloy producers had replaced superalloy degassed chromium with lower cost product where that was possible then substitution no longer has been occurring.

MR. DIEHL: But I understood from my earlier question that when we began the period in early 2001 that switching had not really occurred yet, it was after the --

MR. KRAMER: That is correct.

MR. DIEHL: Okay. But as we look at the decline, I'm trying to get a sense of what are the bigger parts of the picture.

MR. BUTTON: We would be happy to address that in the brief.

MR. DIEHL: Okay.

MR. BUTTON: I understand your point is that with 9/11 there was a decline in overall perhaps quantity of chromium that was consumed and you're also interested in those units that went to non-superalloy degassed.

MR. DIEHL: Right. I understood from the petition there are sort of three elements.

MR. KRAMER: Yes. We'll give a breakout among the three causes we've discussed.

MR. DIEHL: Yes. Yes. Just to get a sense of the relative magnitude of each of the three causes, one being aircraft engine parts, the second being gas turbines and the third being some degree of substitution.

MR. KRAMER: Very good.

MR. DIEHL: Okay. I've heard testimony that once companies qualified to supply they're really competing on a basis of price. Maybe an additional difference is that the JFE allows the consignment to be on an indefinite basis. Are there any other factors that the commission should be thinking about in terms of understanding competition between JFE, Delachaux and Eramet?

MR. VORBERGER: None that I would deem

material.

MR. DIEHL: Okay. Mr. Vorberger, can you comment further on the nature of competition between the superalloy degassed chromium suppliers during the contract negotiations, which I think you said occur on a yearly basis, except for small volumes that go on the spot market? And, again, I should have prefaced all my questions by the comment that if my question calls for something you consider confidential, then please just defer and answer in the brief.

MR. KRAMER: Just for the sake of clarity, we have one important instance in which we now have a sale made on a multi-year basis, so normal practice is annual negotiation, very small volume of spot sales, but we do have a very important instance now which has been a sale over a three-year period.

MR. DIEHL: Okay. But if I could just understand more about what is happening during that often yearly but sometimes multi-year point at which you're negotiating.

MR. VORBERGER: Normally, toward the end of the calendar year, some time during the fourth quarter, there's normally a negotiation. Leading up to that, there's the necessary discussion in order for the supplier of superalloy degassed chromium to understand what the estimated volume requirements will be for the upcoming years. There's a certain amount of due diligence. Based upon that information, we normally prepare a written proposal to supply a certain volume range of product at a certain price and under other certain terms and conditions. Normally, during that period of time, our competitors are submitting likewise. Similarly, they are submitting proposals and then there is a negotiation, a period of negotiation back and forth and usually there is a decision made prior to the start of the next calendar year.

Now, having said that, there are some variations. As an example, as Bill had referred to, in the case of Company X, there was a departure from that process in two ways. Most significantly, the contract period ended up covering a three-year period of time, rather than a one-year period of time, and the steps in which that happened, firstly, there was just a portion of material originally negotiated and purchased by Company X, a portion of their requirements over that three-year period. Then, absent our participation and to the best of my knowledge, Delachaux's participation, in the next stage of negotiation, they essentially unilaterally negotiated and agreed to place business for the balance of their requirements -- for the vast majority of the balance of their requirements over that three-year period. So that was very unique to what we normally would have experienced.

An important fact to mention, the process by which Company X solicited the first portion of their business by three years was an on-line reverse auction, rather than the typical submission of a proposal and then negotiation and Eramet does have a policy for various reasons not to participate in such auctions. That is a policy at the division level. However, we did indicate interest to offer for both that quantity of material and the balance of their requirements through the traditional methods and that's evidenced by discussions leading up to that point in time and discussions with the customer after that point in time. However, they did, as a function through the medium of this reverse auction, did place the initial portion of business with JFE. Subsequent to that, the balance of the business was placed outside of that auction process. That was, to the best of my knowledge, a bilateral negotiation between Company X and JFE.

MR. DIEHL: Okay. Thank you. That's very

helpful.

Changing subjects now. On page 42 of the petition, it indicates that Eramet's average net unit price per pound for superalloy increased slightly from 2001 to 2003.

Now, given that there was a large decrease in demand, what accounts for the higher prices that you found on an average net unit price basis?

MR. KRAMER: What page is that?

MR. DIEHL: This was on page 42 of the petition. It just indicated there was a slight increase in the average net unit price per pound and I'm trying to understand that in the context of a market in which there is declining demand. Why would prices go up in that market?

MR. VORBERGER: That was driven primarily by cost considerations, the motivation for price increases.

MR. BUTTON: Let me just elaborate slightly.

MR. DIEHL: Yes.

MR. BUTTON: The situation was indeed where you're having rising import volume and certainly increasing cost pressure throughout the market, nonetheless, JFE did not hold the entire market at that point. Eramet, facing rising raw material, energy and other costs, sought to get certain price increases to cover these things. Any success, however limited, was certainly welcomed. It was certainly inadequate to meet the needs of getting close to financially covering their costs.

MR. DIEHL: Is there any evidence of Eramet attempting to get a greater price increase but then having to roll that back during the period? In some industries, you publish price lists. I don't know if that's done here.

MR. KRAMER: Can we respond to that in the --

MR. DIEHL: Yes, that would be fine. And if you can, provide any documentation that would be supportive of what you're saying.

So the petition indicates that there is an increase in the average net unit price. Is that reflective of increases in prices for individual products? Is that what we should assume from that? For example, there can be a case in which case the mix of products has changed and that accounts for an increase in average price, but it doesn't necessarily reflect the price increase for individual products.

MR. KRAMER: I think to ensure we give you an accurate answer we should look at that and respond later.

MR. DIEHL: Okay. Yes.

MR. HOUSER: That was a valid question. I think I understand it.

MR. DIEHL: So what I'm saying is if you're seeing an average increase, there can be different reasons for an average increase. One can be that there's a shift into a higher priced product, even though the prices haven't changed at all, or it can be that prices for individual products are going up. If you could just address what's accounting for that.

MR. HOUSER: I think I understand your question. For example, we offer various grades of superalloy degassed chromium, some low sulphur, low nitrogen, those are typically premium grades. You can have the same price over the same period of time, but a volume shift to the higher end premium will have the effect of increasing your overall price, but the volume is really just the same.

MR. DIEHL: Right. That's what I'm trying to get at, if you could address that in the brief.

MR. HOUSER: Oh, yes. That's definitely --

MR. DIEHL: All right. Can you tell us about projections for demand in the U.S. market and overseas demand for superalloy?

MR. VORBERGER: Most projections are for the aerospace market and in particular to continue to grow through the balance of 2005. I think most are of the mind set that 2006 will continue to be a year of strong demand from the aerospace market, but that's improving demand. Improved demand. However, that's a little far out to be able to extrapolate with certainty, but the evidence would suggest that demand will continue to improve.

MR. DIEHL: So that's for aerospace. What about in the gas turbines?

MR. VORBERGER: In the gas turbine, information is less clear but there is evidence today that certainly demand has begun to increase. Evidence of that began last year and that we're continuing to see an increased demand this year. And much more difficult to forecast going out beyond there, but the trend is improving demand.

MR. DIEHL: If you could ask you to attach to the brief any market forecasts that might be published in industry publications, if you could just attach that to your brief.

MR. HOUSER: I just want to make one brief comment on what John said. One of the things that we're seeing in the market, and continue to be hopeful of and we have been for the past few years, and that is the fact that the power gen portion of this market will hopefully -- I guess they've begun to do this, it's just a question of the pace, but to make power gen turbines operate more efficiently, operate longer with less maintenance and effectively reduce the cost of the generation of power. We have seen indications and hope to see further indications of the adoption of aerospace technology, the high end rotating parts of a gas turbine adopt aerospace aircraft engine technology into the power gen section where these turbines are much, much larger, 20 to 30 times larger than an aircraft engine, but this would definitely be a plus. And we're seeing indications of that and I guess we're hoping to see further indications. But that would have a big impact on the demand for superalloy degassed chromium in the future.

MR. DIEHL: Okay. Thank you.

All right. I'm getting near the end of my questions, so thank you for being so patient with me.

Mr. Kramer, I asked you to comment in the brief about a couple aspects of the like product issue with respect to VMG. I think it would be good if you addressed each of the six factors in your brief. That would be helpful to our analysis.

MR. KRAMER: We will do so.

MR. DIEHL: Thank you.

How important is high capacity utilization to the financial health of your superalloy operations?

MR. HOUSER: I think to answer the question -- basically, you're asking about the volume impact?

MR. DIEHL: Well, I'm asking about how important is it to operate at a high level of capacity utilization. How important is that -- there are some industries in which that's important to the financial health, there's other industries in which it's less important.

MR. VORBERGER: It is very important. It's on the basis of unit fixed cost.

MR. DIEHL: Okay. Thank you.

All right. My final question. Does JFE enjoy to your knowledge a production cost advantage by using a silicothermic process rather than the electrolytic process that Eramet uses?

MR. HOUSER: Obviously, I can only give you my opinion, but I don't believe so. Quite frankly, we were very surprised to find that somebody would actually begin production of chrome metal using a silicothermic process. There are several methods. We discussed aluminothermic, which is prevalent in the world today, and silicothermic, but we at Marietta 20 years ago used the carbon -- you can use carbon to reduce the chrome oxide into chrome metal. But quite frankly, this is, in my opinion, a high cost of production. We were quite surprised that somebody would actually try to penetrate the superalloy degassed chromium market with a silicothermic process because it is, compared to other processes, more expensive.

MR. DIEHL: Okay. Thank you very much for your answers.

MR. CARPENTER: Jim Fetzer, the economist?

MR. FETZER: Hi. Thanks for coming out here this morning and I appreciate your testimony and your response to the questions so far. I just have a few questions.

One is sort of a follow-up on something Michael asked earlier. I guess the conditions -- I've heard testimony today and read in the petition that conditions of competition in this industry are characterized with demand that has decreased over time and it increased most recently, and increasing raw material costs. I guess sort of echoing Mike, if there's any way to quantify these changes in terms of -- I mean, I know in the petition there are some data for the price of, I think, ferrochrome, but if you have prices for energy or ammonia, things that you look at or that would characterize -- whether they're public or confidential -- those changes. And the same thing on the demand side, whether it's demand for the aircraft market or the gas turbines or anything else that would be impacting you guys, I think that would be very helpful for us to get a sense of what other stuff is going on there and to what extent your costs are rising. So ...

MR. KRAMER: Yes. We will provide that.

MR. FETZER: Thank you. My next question, and if this is confidential, please just answer in your brief, I was just wondering, in terms of the consignment terms, how that interacts when you're negotiating a contract in terms of price. Is there a trade-off? When you're negotiating, you might give more favorable consignment terms; you know, if there is a trade-off between that and price?

MR. VORBERGER: Far and away, the primary consideration is price. That's far more important than the consignment terms. So that may be a sweetener, but price is the primary consideration.

MR. FETZER: Okay. But is it ever the subject of negotiations at all?

MR. VORBERGER: Well, in the case of -- the topic has been brought up, and certainly it's in a consumer's favor to have the most favorable consignment and other terms as is possible. It's an incentive, but it's not the primary consideration. In other words, it cannot come close to making up for any significant price differential.

MR. FETZER: Okay.

MR. HOUSER: Can I make a comment, I guess, for general information on this consignment issue?

MR. FETZER: Sure.

MR. HOUSER: It's actually a penalty, a much greater penalty, to Eramet, as a domestic producer, than you would realize because this consignment issue is born out of the fact that all of our competition is offshore, so whether the competition is coming from France or Japan or wherever else in the world, it is being imported into the United States, which means they have to find a warehouse, and they have to pay unloading and warehousing costs and transportation costs to the customers.

But in the case of a JFE or a Delachaux, an offshore competitor, it actually saves them costs by taking it to the customer's warehouse and releasing it on consignment versus buying a public warehouse and paying those costs plus additional transportation costs.

And we have been, for many years -- this practice was established a long time ago, but, for many years, we were forced to meet that, as a competitive issue, we were forced to meet that consignment issue. But it's actually a bit of a penalty to a domestic producer because their competitors, offshore competitors, are saving costs by going to the consignment route.

MR. FETZER: Okay. Thank you. That's all my questions. Thanks for your testimony.

MR. CARPENTER: Mr. Yost, the auditor?

MR. YOST: Good morning, and thank you very much for coming out on this wonderful Washington day.

I had a couple of questions, one dealing with your financials. Does Eramet prepare P&L statements for the subject product alone, or is the subject product rolled up into all of your chromium products or all of your chromium plus the manganese products that Eramet Marietta produces?

MR. HOUSER: I guess, to the point where, at Eramet Marietta, we do a monthly financial report. It's about 30 pages, of which all of the products produced at Marietta are broken down to a certain P&L level, which the superalloy degassed chromium is actually taken to a P&L level. It's --

MR. YOST: Sorry to interrupt. In that monthly report, is that the point at which the allocations from the various service departments are made to the products? I assume that's where management control --

MR. HOUSER: Yes, yes. It's a very complex spreadsheet. The allocated costs and fixed overhead are all added to the cost, beginning with the sales revenue, and it's taken to the P&L level. The superalloy degassed chromium is separate. There are some products on this statement that are combined, but superalloy degassed chromium, it is separately indicated on the P&L statement.

MR. YOST: Okay. And the chrome is separate from manganese as well, --

MR. HOUSER: Yes, yes.

MR. YOST: -- although they share some of these service department costs?

MR. HOUSER: Yes. Obviously, at the Marietta plant, there is a certain pocket or pool of fixed costs that are allocated to each product. I'm sure, if we haven't already explained it, we can provide how that's allocated.

MR. YOST: Okay. Are these P&L statements also compiled on a less frequent than a monthly basis, for example, one year, in other words, some that cross 12 months?

MR. HOUSER: Yeah. These are monthly -- at the end of the year, there will be a final statement, audited financial statement, for the company for the year.

MR. YOST: In your post-conference, would you please attach a copy of the four year-to-date statements for 2001, 2002, 2003, and 2004?

MR. HOUSER: You're asking for the final audited copy of the financials per year?

MR. YOST: No, I'm not. I'm asking for the internal, year-to-date, management-accounting statement.

MR. KRAMER: Year-to-date through current month for the last four years?

MR. YOST: No. The year-to-date for December 2001, December 2002, 2003, and 2004.

MR. KRAMER: December's report.

MR. YOST: The December report, yes.

What is the source of the high-carbon ferro-chrome?

MR. HOUSER: We've, over the years, used -- we should put that in the brief. We've used various sources, but the specific source and where it's sourced from, we probably should provide that --

MR. YOST: I'm more interested in whether that's transferred in from your parent or a related company, --

MR. HOUSER: No. It's purchased.

MR. YOST: -- or are these open-market purchases?

MR. HOUSER: It's open-market purchases

under a contract.

MR. YOST: You had mentioned, I think, Mr. Houser, the pilot plant or pilot furnace was first put in in 1994. What was that date you were referring to? Sorry.

MR. HOUSER: That was when we initiated our technical work, our research and development work, on new technology to refine chrome metal. We went through an evaluation of our current product, and in discussions with many customers, and, quite honestly, our strategy was to focus on the very high-end parts -- in other words, we would sit down with who we considered the leaders in the production of these very high-end, rotating parts for aircraft engines. Obviously, that's a market that continues to grow, and the technology is moving along with it.

So we sat down with those and asked them, what's the product of the future going to look like? And then we went back, and in our R&D efforts, we said, okay, here is what the requirement of the market is projected to be five years from now. What grades of chrome will be used? What elements they will focus on?

So we initiated an internal R&D project, beginning in 1994, to find a new way, or the latestand-greatest method of refining chrome metal to these qualities. Based on that, we completed the work, and we actually patented the process itself, and then, with that patented technology, we convinced our management to invest in this small pilot furnace. It was January 2003.

MR. YOST: I'm sorry. The patent was issued when?

MR. HOUSER: August 2000, I believe. We can confirm that. The furnace was commissioned, January 2003, I believe, and it continues to operate today. As we've mentioned, the initial plan was to put another furnace in and another furnace in to meet the demand of these high-end alloys, using this new technology.

MR. YOST: Okay. Help me out with the timeline. So you began the R&D efforts in 1994, patented it in 2000, August of 2000, and commissioned a small-scale furnace in 2003. Now --

MR. BUTTON: Mr. Yost, we can give you -- in a brief, we'll lay this out in a step-by-step form for you.

MR. YOST: Okay. That would be helpful. Thank you.

MR. HOUSER: You're just interested in

essentially a timeline?

MR. YOST: A timeline, and what do you estimate this would reduce your costs, costs of production, by?

That completes my questions. Thank you very much.

MR. CARPENTER: Karen Taylor, the industry analyst?

MS. TAYLOR: Thank you very much for your testimony today. I do have some questions.

The major use for superalloy degassed chromium, obviously, is for superalloys to be used in aircraft engines. Are there any substitutes for chromium in this application?

MR. HOUSER: We've had lots of discussions with a lot of people about this, but we come up with the same answer: No, there is no substitute for chromium. I think the report that we talked about, the Marietta 1995 report, that came to that same conclusion, the government report. In discussions we've had with technical people in this industry, there is no substitute for chromium in these high-end superalloys.

MS. TAYLOR: Thank you. Could you go over the three different -- let me start with an even more basic question. The degassing process itself; is that the same for all producers?

MR. HOUSER: No. Very similar but not exactly the same because essentially, with our plant, we're starting with an electrolytic chrome, base chrome grade, and we have our process of degassing using a vacuum furnace similar to -- as I mentioned, the processes are very similar. But the silicothermic and aluminothermic process, just by the nature of the process, is different. It's a pyrothermic process versus essentially a chemical process at Marietta. So you end up with different impurities in the base chrome grade, so you have to make adjustments. Hopefully, you can remove these detrimental elements in producing the basic chrome.

MR. VORBERGER: But those are slight differences. Correct? Generally, it's a similar process.

MR. HOUSER: Yes. The processes are very similar, but keep in mind, you're starting with a different type of chrome, so you have to make adjustments, essentially make the base grade of chrome and then degas it in a degassing furnace, but there are subtle differences.

MS. TAYLOR: All right. Thank you. Could

you discuss the three processes -- electrothermic, silicothermic, and aluminothermic -- and the benefits and drawbacks of each?

MR. HOUSER: In five words or less? Would it be possible just to give you a description of each process in the brief?

MS. TAYLOR: Yes. You can put that in the brief, if you would like. Thank you.

For chromium at the level of purity that results from this degassing process, can that level of purity be made only by this process, or are there other processes?

MR. VORBERGER: Today, only by degassing, to the best of --

MR. HOUSER: As we mentioned, even the electronics grade, a very high purity, also uses some type of degassing to purify the product.

MS. TAYLOR: All right. Thank you. You mentioned there were four producers: Eramet, Delachaux, and JFE. Who is the fourth?

MR. VORBERGER: JMC.

MR. HOUSER: A Japanese company.

MS. TAYLOR: All right. What about this chromium metal producer in Russia, Tulachermet? Do they also produce this degassed chromium?

MR. VORBERGER: They do not produce superalloy degassed chromium. That is electronics grade.

MS. TAYLOR: Electronics grade?

MR. HOUSER: It's an electrolytic process, but it uses chromic acid for its catholyte to plate the chrome. I believe, in John's testimony, he testified to the fact that this is a high-purity chrome that you can't substitute down. It's produced for LCDs, magnetic-storage disks in computers. It's a very high-end product and very expensive.

MS. TAYLOR: Thank you. You mentioned this certification process that's necessary. I assume it's necessary for a company to be able to sell the superalloy degassed chromium to these investment casters. Could you discuss what's involved in this certification process?

MR. VORBERGER: Generally, the investment casters have a quality program that they have developed in conjunction with their customers, in this case, the jet engine manufacturers, and, as such, there is an internal qualification process that they must go through when choosing to use any new raw material for use in products which are going into these applications.

And we're not specifically familiar with all of the details of each customer's qualification process; however, generally speaking, it does require that a producer demonstrate a certain quality program itself and then, obviously, provide a sample of material and then a trial quantity of material that is used -- we presume, they analyze and actually produce product with and qualify through their internal procedures. That process, generally speaking, just based on our experience, may vary somewhere between six months to a year, and once that process is qualified, as long as the qualified supplier continues to provide product that meets that specification, it's qualified indefinitely.

MS. TAYLOR: All right. The certification process is for -- think of the best way to explain this -- specifications of the product, or does it get into the production process itself?

MR. VORBERGER: The production process of --

MS. TAYLOR: -- of the degassed chromium.

MR. VORBERGER: -- the superalloy degassed chromium?

MS. TAYLOR: Correct.

MR. VORBERGER: They are most concerned about the end product. There is concern that they must confirm that the supplier has the ability to replicate that process, but normally, through ISO certification and whatnot, as long as you can ensure that you will use a consistent -- you have the internal controls in place to consistently replicate the process, that's normally the extent to which they will go.

MS. TAYLOR: All right. I asked the question because I was looking through a report done by the National Research Council in 1995 on high-purity chromium metal because that's considered a critical material by the Defense Department, and, evidently, back in the nineties, there was some concern that the aluminothermic process may not be able to produce material that would meet the specs for these aircraft manufacturers, and they made a recommendation that the certification process be disconnected from production methodology so that any material that meets end-product specifications would be permissible. Has the essentially occurred?

MR. VORBERGER: To the best of my knowledge, yes.

MS. TAYLOR: Okay. Thank you. Also, in that same document, it stated that the degassing furnaces that Eramet has have a charge capacity of 80 metric tons. In your petition, it stated that, in 2004, consumption was estimated at about 1,100 to 1,300 tons. So the furnace seems to be a lot larger than needed. Are other materials produced, or do you need a furnace that large for this production process?

MR. HOUSER: I think we addressed that in the petition. We actually produce other products -- some of these other products, I described -- in the furnace. It's 80 metric tons per charge. That's not the capacity for the year.

MS. TAYLOR: Okay.

MR. HOUSER: But we also produce other products.

MS. TAYLOR: All right. Those are all of my questions. Thank you very much.

MR. CARPENTER: Fred Ruggles, investigator?

MR. RUGGLES: My big question here would be the imports. I realize this is a basket category, but when you look in there, you see significant imports from the U.K., France, Russia. Is this the super degassed, or is it strictly VMG? And I heard you say that Delachaux sells the super degassed in the United States. Why aren't you filing against them? I think that, with the drop in the dollar in Europe, you would bring them in. Is there something we're missing in this?

MR. KRAMER: We did a case evaluation to determine what supplier was, at this time, inflicting material injury on the domestic industry -- at less than fair value and determined and, therefore, filed a petition covering them.

MR. RUGGLES: Okay. So are you saying that there are no imports coming from France and the U.K.?

MR. KRAMER: No. I'm not saying that at all.

MR. RUGGLES: Okay. So do you have any idea how much is coming from them of this subject product?

MR. KRAMER: Yes, we do, based on our interaction with customers.

MR. RUGGLES: Could you supply that to us?

MR. KRAMER: Yes. We've provided a lot of data concerning that in the petition.

MR. RUGGLES: I understand. I guess, what I'm asking is, could you just break that out so that we have, by France, U.K., Japan, Russia?

MR. VORBERGER: Just to be clear, we could provide that in the brief, an estimate of the breakdown, but the imports from Russia and the U.K. do not reflect -- it's not superalloy degassed chrome.

MR. RUGGLES: Okay. That's what I'm asking.

So there are no --

MR. VORBERGER: No.

MR. RUGGLES: -- imports from there. Okay.

MR. VORBERGER: Correct.

MR. RUGGLES: At this point, I don't have any others. Thank you.

MR. DEYMAN: Good morning. I'm George Deyman, Office of Investigations.

From what we heard earlier about your production process, is it fair to say that the superalloy degassed chromium and the VMG are produced on the same equipment with the same workers?

MR. KRAMER: Could you repeat the question?

MR. DEYMAN: From what we heard earlier about your production process, it appears that the superalloy degassed chromium and the VMG product are produced on the same equipment with the same workers. Is that true?

MR. KRAMER: Yes, that's true.

MR. DEYMAN: Are there any other products produced on that equipment?

MR. KRAMER: There are two different parts of the process, producing the chrome metal and then the degassing process, and as has been explained, the chrome metal that's produced in the first stage is used to produce a variety of value-added products and also sold as the base chrome metal.

MR. HOUSER: As Bill just described, we produce an electrolytic chrome flake, or electrolytic chrome metal, and then the degassing is a separate building, separate process, separate workers. Correct. That's the superalloy degassed chrome, VMG. We do a chrome-carbide product. We do nitrites and chrome. We have various products produced in the second process.

MR. DEYMAN: Thank you. You mentioned, on page 20 of the petition, and you mentioned earlier this morning, that some purchasers shifted consumption of superalloy degassed chromium to VMG after 9/11. Then you mentioned that there are a limited number of customers for the superalloy degassed chromium. My question is, did the shifts that occurred occur across the board in all of your customers, or were those shifts limited to a few customers? You can answer in your post-conference brief, if you wish.

MR. VORBERGER: The majority of that shift was limited to a few customers.

MR. DEYMAN: Okay. Do you feel that any adverse effects from the subject imports on your company are more what one might call "price effects" or volume effects, or both?

MR. VORBERGER: It's both. It's both. The volume impact, most recently, has been very significant.

MR. KRAMER: As set out in the testimony, there is this very important core volume impact, and then you have price effects in two forms. You have specific instance in which Eramet has been forced to lower prices because of competing bids from JFE, and then you have this broad, price-suppressing effect we've discussed.

MR. DEYMAN: Speaking of the volume effects, I'm looking at Exhibit 11 of the petition. Now, the numbers in that exhibit are business proprietary, so I can't go into them, but what the exhibit shows is apparent U.S. consumption, and it shows production, shipments, imports, and then the consumption number.

Without getting into business-proprietary information, could you indicate, either now or in the post-conference brief, the volume effects of the subject imports versus the volume effects of the decreased consumption that has occurred in the marketplace?

MR. VORBERGER: Yes. We can provide those numbers in the post-brief.

MR. DEYMAN: Okay. And my last question is, on page 60 of the petition, you mention that the total global consumption of the degassed product is 1,500 metric tons a year, and that's a public number, -- it's in the public petition -- 1,500 metric tons, and yet I'm looking at Exhibit 15, which is an article from the text report, where, according to NKK Material, which, I guess, is the former name for the JFE Material, --

MR. VORBERGER: That's correct.

MR. DEYMAN: -- they are talking about a global consumption of up to 15,000 tons of what they call "special-grade chrome metal." Is what they call "special-grade chrome metal" the same thing as the superalloy degassed product, and, if so, why the discrepancy between the 1,500 tons in the petition and the 15,000 tons?

MR. VORBERGER: No. It's not the same. This would encompass a wider array of products. The NKK statement encompasses a wider array of products than just the superalloy degassed.

MR. DEYMAN: All right. Well, thank you. I have no further questions.

MR. CARPENTER: I have a few follow-up questions.

You say in the petition that in the lower-grade applications that customers have sometimes revised their products' specs to accept lower-grade chromium. What about in the higher-end applications that you sell most of your product into? Do those customers sometimes revise their specifications?

MR. VORBERGER: No, no. I'm not aware of any revision to those specifications for downgrading of specifications for applications for the high-end, superalloy applications, --

MR. CARPENTER: Okay.

MR. VORBERGER: -- primarily the investment casters.

MR. CARPENTER: One thing I'm trying to get a handle on is how the specifications are set for particular sales. As I understand it, you have a basic rate, and then you have certain lower purity grades that you sell, I assume, for different applications, and I believe you said that your competitors have the same.

But then the petition also says that your customer, or, at least, the investment casters, I take it, have maybe one particular grade that they purchase, or maybe they have more than one grade for different applications.

But are the specifications of your customers broad enough so that even though your grade might differ from your competitors, that they would still all meet that specification. Is there enough variability in the customer specs that they can accept various products?

MR. VORBERGER: Generally speaking, yes. If you're referring to the high end, the superalloy degassed chromium metal.

MR. CARPENTER: Yes. Okay.

MR. VORBERGER: Except for one particular case where there is a customer which prefers electrolytic. However, that's not a technical limitation. In the end, it's a preference, and there's reasons behind it but my understanding is that, technically speaking, they could use -- well, that's true. It is. This customer has a number of patented alloys for which they buy a lot of high-end raw materials.

So it's a preference in this case for electrolytic, but my understanding, it's not ultimately an insurmountable technical barrier, if you will. There are other superalloy degassed chromium bases for production that would be applicable. They could use other grades. They could make a combination to use material other than electrolytic-based, superalloy degassed chrome.

MR. CARPENTER: In short, what you're saying is that the customer specifications, the particular requirements, are in a form that the three competitors can supply.

MR. VORBERGER: Right.

MR. KRAMER: Just to say one more word about that, the situation is that you have customers, each of which has its own product spec. for a particular type of, let's say, regular-grade, superalloy degassed chromium. There are slight variations among those. Producers each have their own specs. There are slight variations among those. And then producers have the ability, which was described in Steve Houser's testimony, to sort the product in particular batches to have a particular portion of their material be slightly different from their own published spec.

And then, in this array of specs from customers and purchasers, if you line them up and examine them, you have these common thresholds we've described as defining what the product is. So you have a lot of minor variations, but each supplier can meet, generally speaking, with this exception that John has mentioned, each supplier, with its product, can meet the requirements of each of the customers.

MR. CARPENTER: That's what I was getting at. That's very helpful. So, in other words, each supplier can, more or less, fine tune their specifications within each of these grades to meet the precise requirements of the customers.

MR. VORBERGER: Yes.

MR. CARPENTER: Okay. The petition says that the turbine producers increasingly require the high-end, superalloy degassed chromium previously used only in aerospace applications. Is this because of developments in the turbine industry where they require a higher-grade product?

MR. VORBERGER: Yes, it is. It's technical developments, and, generally speaking, in order to reduce the cost of generating electricity, they are aiming to apply aerospace technology to the land-based turbines in order to allow for these turbines to operate more efficiently, which requires that they operate under higher temperatures, and, therefore, will require the materials suitable to perform, to operate, under those conditions. Those materials happen to be similar alloys, the same alloys as the jet engine alloys, aerospace application.

MR. CARPENTER: Do the three main investment casters that you mention in the petition have different customers that require different specifications?

MR. VORBERGER: Not mutually exclusive. In other words, the investment casters are not unilaterally aligned with one particular jet engine or land-based turbine manufacturer. Their customers are purchasing materials, parts, from, to the best of our knowledge, from all three.

MR. CARPENTER: Okay. And do the specifications that the ultimate customer has, do those change very often, or do they tend to be the same from year to year?

MR. VORBERGER: There is development, and, if anything, it's a requirement for increased capabilities of the material performance. So there is some progress due to technological developments. In the scheme of things, it's not very significant over the course of two or three years, the period of investigation.

MR. CARPENTER: Thank you.

Mr. Yost, to add some questions about the capital investment program that you spoke of, and you've described that to some extent, since you're alleging that due to the impact of the dumped imports, you are unable to go forward with this plan, if you have any additional details you could provide in your brief, and also if you have any internal company documents that describe the investment plan that you are hoping to put into place, if you could attach those to your brief, that would be helpful.

MR. CARPENTER: Okay. I think we have a couple of other follow-up questions. Mr. Diehl?

MR. DIEHL: Hi. It's Mike Diehl again. Just a few more questions.

When the VMG product is degassed, and the superalloy product is degassed, is it being degassed in the same facility?

MR. HOUSER: Yes.

MR. VORBERGER: Yes.

MR. DIEHL: Same furnace. Okay.

If you could supply any projections for prices in the immediate future for high-carbon ferro-chrome, that would be helpful, if you could put that in your post-conference brief.

Is the term "superalloy degassed chromium," is that a term that purchasers would use, or would they refer to the product as "VG," as we looked at on Exhibit 2?

MR. VORBERGER: They would refer to it

either by trade name, as they talk to a particular supplier, -- VG is our trade name for superalloy degassed chromium. Others have their trade name. So they may refer to it when talking to a particular supplier by trade or by an abbreviated form, such as "degassed chrome."

MR. DIEHL: Will you hear the term "superalloy degassed chromium" in discussions between purchasers and sellers?

MR. VORBERGER: Because of the length of that term, normally, no. Normally, when I'm talking with a supplier, they recognize our superalloy degassed chrome is VG, so they will talk in terms of VG chrome.

MR. DIEHL: If I came in and used the term, would they know that I'm referring to VG?

MR. VORBERGER: They would probably have to think about it for a second, but, yes, they would recognize that that applies to the degassed chrome that they require for the high-end applications.

MR. DIEHL: Okay. Thank you. Those are my follow-up questions.

MR. CARPENTER: Thank you very much for your presentation. Mr. Kramer?

MR. KRAMER: We have a closing statement.

MR. CARPENTER: I was going to ask if you had one. You have 10 minutes to use, if you would like. Would you like some time to gather your thoughts, or are you ready?

MR. KRAMER: We're ready.

MR. CARPENTER: Okay. Please proceed.

MR. STEVENS: All of the elements of material injury by reason of the dumped imports are present in this case. The existence of injury and causation is unusually easy to discern in this case because the universe of market participants is so finite. The domestic industry is composed of a single producer. The number of sellers in the market is small, only three. The vast majority of the product is consumed by an equally small number of consumers.

One seller, Japanese producer JFE, has consistently underbid Eramet in its contract negotiations with these customers. By this method, JFE has taken major sales volume from Eramet and progressively and dramatically increased its sales volume and market share in the United States.

Because of the small number of customers and the fact that most business is done in large blocks using annual or longer-term contracts, Eramet cannot replace this volume. JFE's low bids also forced

Eramet to lower its prices and experience additional lost revenues. Further, by offering product at low dumped prices in a market where price information is easily communicated among the few market participants, JFE has suppressed prices more broadly at a time when Eramet's production costs are increasing.

The result has been severe injury to Eramet by almost every measure. The data show declines in Eramet's shipments, market share, production, capacity utilization, employment, and financial performance. Notably, the decline in Eramet's shipment, market share, and financial performance worsened in 2004, even as demand for superalloy degassed chromium improved, while, at the same time, the Japanese imports reached their highest volume and market share yet.

The threat of further severe injury in this case is very real. As described by the Eramet witnesses today, there is every indication that, absent relief, JFE will continue to gain market share and volume and continue to suppress prices, to the great detriment of the domestic industry.

On behalf of Eramet Marietta, Inc., and the union representing the workers producing superalloy degassed chromium, we ask the Commission to find, as the record evidence shows, that there is a reasonable indication of material injury, or threat of such injury, to the U.S. superalloy degassed chromium industry by reason of the dumped imports from Japan. Thank you.

MR. CARPENTER: Thank you, Mr. Houser. Again, thank you, gentlemen, for coming here this morning. I particularly appreciate the industry witnesses for coming here today to enlighten us on this product and answer our questions.

I do have a few dates to keep in mind, in closing. The deadline for both the submission of corrections to the transcript and for briefs in the investigation is Wednesday, March 30th. If briefs contain business-proprietary information, a public version is due on March 31st.

The Commission has scheduled its vote on the investigation for April 15th. It will report its determination to the Secretary of Commerce on April 18th. Commissioners' opinions will be transmitted to Commerce a week later. Thank you for coming. This conference is adjourned.

(Whereupon, at 11:27 a.m., the conference was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Superalloy Degassed Chromium from Japan

INVESTIGATION NO.: 731-TA-1090

HEARING DATE: March 25, 2005

LOCATION: Washington, D.C.

NATURE OF HEARING: Hearing

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: March 25, 2005

SIGNED: LaShonne Robinson
Signature of the Contractor or the Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Carlos Gamez
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

SIGNED: Bernadette Herboso
Signature of Court Reporter